



**Eurofi 2008 -
Thursday 11/09/08**

**Session [8] - CROSS-BORDER
INSURANCE GROUPS
SUPERVISION: Key features
of the Solvency II Directive:
College cooperation
arrangements, Decision**

**Making Process, Supervisors mandate specificities, CEIOPS
role and responsibilities.**

The Panel

Moderators: **Jacques de Larosière & Daniel Lebègue**, Co-Presidents,
Eurofi

Panellists: **Charlie McCreevy**, EU Commissioner for Internal Market
& Services;

Peter Skinner, MEP, Committee on Monetary and Economic
Affairs, European Parliament;

Thomas Steffen, Chairman, Committee of European
Insurance and Occupational Pensions Supervisors (CEIOPS)

Denis Duverne, Member of the Management Board, AXA;

Thierry Francq, Assistant Secretary Financial Sector,
Treasury and Economic Policy Directorate General Finance,
French Ministry for the Economy, Finance and Employment;

The Debate

Since the Commission adopted its "ambitious Solvency II proposals for a streamlined system for the supervision of insurance and reinsurance groups" in July last year, discussions had progressed in both the Council and the European Parliament at an impressive pace, said **Charlie McCreevy**, EU Commissioner for Internal Market & Services.

"The number of issues remaining has been reduced to a manageable amount, and I am confident that appropriate solutions will be found over the coming months," he added.

Discussions were also very advanced in the European Parliament, with more than 820 draft amendments tabled before the summer. "All this has opened promising perspectives for the French Presidency, which has the challenging task of concluding the discussions with the Council and Parliament."

The prize was a big one, the Commissioner said. "If we succeed, and we will, we will have established what I hope will be the best up-to-date risk

based insurance supervisory system in the world – which I believe will be a model for other countries and the EU will be ahead."

Among the most important issues to resolve were group supervision and group support. Here, the proposed Framework Directive would substantially modernise and simplify insurance group supervision by introducing an innovative and ambitious regime that sought to facilitate capital management by groups. It would allow parent companies, under certain conditions, "to use declarations of group support to meet part of the Solvency Capital Requirement of its subsidiaries".

"I am well aware that some aspects of our proposal on groups, and in particular the group support regime, are raising a number of questions and concerns with many Member States," Mr McCreevy conceded. "We stand ready to continue constructive discussions and to help find appropriate solutions to make the proposed system work in a sound and efficient manner in all circumstances."

It was heartening that there was a great deal of agreement on some key features of our proposals on group supervision, such as more intensive co-operation of supervisors within active colleges under the responsibility of the group supervisor. This would be complemented by a reinforced mediation role for CEIOPS when supervisors within the college had diverging views.

"We envisage the introduction of a European dimension in the national mandate of supervisory authorities, with a view to ensuring that they will have due regard to the interests of policyholders in other Member States when carrying out their rights and duties under the new regime," Mr McCreevy said.

Effective protection of policyholders was a primary objective of Solvency II. At the same time, there were clear benefits – for both undertakings and supervisors – to more integrated supervision of insurance groups. "We must make group support work. It is an essential element of the proposal, which I am particularly attached to. I have made it clear that I will not support amendments that undermine the basis of the group support regime."

The financial services industry was a major force for good, said **Peter Skinner**, MEP, Committee on Monetary and Economic Affairs, European Parliament and rapporteur for the Solvency II directive. Coming from a country with a global perspective, he said that the directive was a "gold standard" and if the EU could get it right, it would be a world-beater. "It will push our industry along the road to becoming very competitive against the rest of the world."

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It was also important in terms of maximising the potential of the single market but there were many issues outstanding. There had been 821 amendments to the directive in the European Parliament and it had been a “heavily lobbied issue”, as befitted Parliament’s role of distilling the views of consumers and business. “We are working on a series of potential compromises and I would like to see this completed this year. This is a goal that the parliament is trying to work towards.”

Questions remained over proportionality – the thresholds in the directive were just numbers and companies would be keen to be part of something that would be seen as a mark of quality. It was also important to look at the role of mutuals and explore how to broaden the scope of the directive so mutuals could also enjoy the diversification benefits that commercial organisations would. Issues such as group support and the role of colleges all “bring into scope an exciting and dynamic process that Parliament will be voting on,” Mr Skinner said. “It is up to us – and to you – to make this European process a global standard.”

Thomas Steffen, Chairman, Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) said that it was a pleasure to be in France on the 50th anniversary of the first insurance supervisors’ meeting in Paris. It was apt that the French presidency was dealing with the issues involved in Solvency II and group supervision.

Supervisors often found themselves sandwiched between their political masters and the industry, which was one reason they were so interested in the new regime. It was important to stress that Solvency II was not a ‘big bang’. Work had been going on for five years and the regulation’s introduction in 2012, along with preparations for a group supervisory regime.

There were already more than 110 colleges of supervisors in place and the Ecofin roadmap had given further impetus to the process. There were review mechanisms, peer review of how the colleges were working and a great deal of communication between supervisors on the work they were doing. “When I became a supervisor six years ago, it was not normal for me to invite my French colleagues along on site inspections, but that is the situation now.”

It was important to remember, Mr Steffen stressed, that whatever supervisors did was on the basis of current legislation. “Who are we, as supervisors, to go beyond that?” he asked. There was room for improvements in the supervisory process but it had to come from an improved legal basis for the future responsibilities of the operations of supervisory colleges. “Whatever the outcome of the political negotiations, we cannot keep the current system.”

In May 2008, CEIOPS had delivered its paper on co-operation and co-ordination between supervisors and how to make the group support scheme work. Some aspects of the paper troubled some supervisors because they retained national mandates and had to protect national policyholders. “There is a certain tension in the process, but we came to an agreement,” he said.

Mr Steffen said he was pleased that the industry had agreed that there was a need for clarification in the directive and that the committees work would continue, for example on how to measure diversification effects. While it was too early to talk about the outcome of QIS4, “I was very happy that we had higher participation from the big insurance groups for QIS4 than QIS3 – more input will give us better data and a better picture of where groups stand and the effects of diversification can be,” he added. QIS4 further illustrated the benefits of not having a big bang – it was more evidence of co-operation between supervisors and industry. “Supervisors are eager to accept their future roles on co-operation, convergence and mediation that Parliament, the Commission and the Council might give to us because there is no way back to the 20th century,” he ended.

Denis Duverne, Member of the Management Board and Chief Financial Officer, AXA, said that his company was a big supporter of Solvency II and the group supervisory regime, which he called “a modern supervisory regime based on true analysis of the economic risk of a business, which is very close to the way we do business”.

There were good reasons why the EU should go further in insurance than they had for banking – cross-border consolidation had started earlier for insurers than for banks and the top 20 cross-border groups made up about half of the market. “These groups have fostered innovation, increased competition in local markets and brought huge benefits to the EU,” he said. “The group support regime will allow groups to pass on the benefits of diversification to customers.”

While Axa understood some of the anxieties expressed on the group support regime, the company would be disappointed if the proposals were watered down by political compromise. Some supervisory mechanisms had not been described fully in the current draft. “We are in favour, for example, of a formal guarantee by the holding company for the expression of group support,” Mr Duverne said, but not in favour of third-party guarantees because that created counterparty risk that it was best to avoid.

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There should also be a more formal structure for the colleges of supervisors, with both structural and co-operation aspects that needed to be enhanced. CEIOPS should have a mediation role as a way to improve the level of trust between supervisors. The internal models for solvency of large multinational groups should be validated once by group supervisors, but there was room for a European taskforce made up of CEIOPS and national supervisors to make sure that the validation process was harmonised.

“There should also be clarification of the consequences of a breach of solvency capital requirements or minimum solvency requirements and a clearer definition of the apportionment of assets defined in group support between subsidiaries,” Mr Duverne said. In addition, “it is important that there can be no national add-ons from local supervisors to the requirements imposed at group level”.

Some clarifications were needed to ensure local supervisors could satisfy their responsibilities to the private sector and policyholders but the group support regime was a unique opportunity for European Union to have the most advanced insurance regulation in the world, he said.

Thierry Francq, Assistant Secretary Financial Sector, Treasury and Economic Policy Directorate General Finance, French Ministry for the Economy, Finance and Employment, agreed that Solvency II was a historical opportunity to set standards at an international level. “The basic element of insurance is the mutualisation of risk and the diversification of risk.”

In Solvency II, there was a direct link between the interests of policyholders – in getting the benefits of diversification – and group supervision. “To make this diversification possible, you need strong, integrated supervision and group support,” he said.

The benefits of diversification did not accrue to one part of the group or one country – they were common to all policyholders and all countries where the group operated. But what happened if there was a problem? “We think it is possible to meet these concerns. We have tabled some proposals to ensure that these benefits would be dispersed to all parts of the group in an equitable manner,” Mr Francq added.

And if the proposals were not approved, it would be a step backward rather than an end to the process. “I am really impressed by the progress and co-operation of insurance supervisors and we must continue to encourage this impressive momentum,” he said.

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